R5502

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 4B
January 31, 1992

IN THIS ISSUE:

Senate Panel Reviews President Bush's Trip To Japan 1

Bribery Scandal Complicates Miyazawa's Agenda 3

G-7 Meeting Gets Mixed Reviews 5

Japanese Merger Activity Off In 1991 7

Senate Panel Reviews President Bush's Trip To Japan

Even before President Bush had returned from Japan, the results of his January 7-10 visit were being analyzed and debated by politicians of all stripes. In Congress several critics of the White House's trade policies were quick to conclude that the trip had made little progress toward resolving this country's trade problems with Japan. Debate over what the Bush administration entourage had achieved in Tokyo grew more heated after Prime Minister Kiichi Miyazawa said January 20 that the Japanese automotive industry's plan to distribute roughly 20,000 American-made cars a year at home and to buy more parts was "a target rather than a firm promise." The prime minister's comments hardened the resolve of some legislators to pin down the executive branch on what was accomplished in Japan.

Soon after the president concluded his trip Sen. Lloyd Bentsen (D, Texas) announced that the Committee on Finance, which he chairs, would review the results of the mission. At the resulting Finance Committee hearing January 23 Sen. Bentsen said he called the meeting to ask the administration how many of the jobs being attributed to the U.S.-Japan trade deficit the trip would recover. Saying he was skeptical about whether the high expectations for the visit would be matched by results and implying that the Bush administration continuously took a weak stand toward Tokyo, Sen. Bentsen pointedly asked: "Is Japan backsliding on firm commitments or were commitments never firm?"

Many of Sen. Bentsen's Finance Committee colleagues expressed similar disappointment with the January visit. Several Democrats questioned its premise. Sen. Max Baucus (D, Mont.) said the trip "smacks of a political quick fix;" Sen. John Rockefeller (D, W.Va.), too, characterized it as

politically motivated. Some Republicans on the committee also had criticisms. Sen. Dave Durenberger (R, Minn.) reported that his constituents viewed the inclusion of the chairmen of the Big Three motor vehicle companies on the trip as a big mistake. Sen. John Chafee (R, R.I.) called the auto executives' appearance a "fiasco." Several senators argued that solutions to U.S. competitiveness problems need to be sought at home. Sen. Bentsen noted that the United States "desperately need[s] a national economic strategy," while Sen. Durenberger said Minnesotans told him they want "long-range thinking" about this country's economic difficulties.

Lawmakers from both parties noted, however, that the president's trip to Asia highlighted the importance of trade as a policy issue. Sen. Bentsen said that the tour underscored for Americans that international trade has a direct impact on jobs in this country. Republican Sens. William Roth (Del.), John Danforth (Mo.) and Orrin Hatch (Utah) lauded what they perceived as the visit's message that trade is a key concern of the Bush administration. The Asia trip was "exactly what [members of the committee] have been asking the president to do for at least 15 years," Sen. Danforth said. It was, he said, "not a trip for detailed negotiations" but to emphasize that trade is a priority.

U.S. Trade Representative Carla Hills responded to the panel members' comments by defending not only the accomplishments of the president's Tokyo meetings but the White House's Japan trade policies. Ms. Hills outlined the administration's three-part plan of action to open Japanese markets for U.S. exports and investment: eliminating barriers in specific sectors, lowering economywide barriers through the Structural Impediments Initiative talks, and negotiating additional or stronger multilateral trade rules, lower tariffs and greater market access in the Uruguay Round. Pointing to the decline in the U.S. trade deficit with Japan since 1988, Ms. Hills asserted that this policy is paying off but acknowledged that "there is still much work to be done."

President Bush "accomplished much during his visit" to Japan, USTR Hills said, citing the new rules on public-sector procurement of computer hardware, software and services plus steps to improve the access of foreign suppliers to Japan's paper and glass markets as well as to address the bilateral imbalance in the automotive industry (see *JEI Report* No. 2B, January 17, 1992 and No. 3B, January 24, 1992). Ms. Hills also outlined the trade agreements reached with Japan throughout Mr. Bush's tenure, noting, "The only sure way to open Japan's markets is with steady, persistent pressure."

Several members of the Finance Committee, however, pushed the top U.S. trade negotiator on what they perceive as persistent problems in U.S.-Japan trade relations. Asked by Sen. Bentsen if the commitments reached in Tokyo were "targets or firm," Ms. Hills said the public-sector computer procurement pact was a government-to-government agreement that will be monitored and enforced. The section of Japan's "action plan" dealing with cars represented a private-sector commitment, while the pledge to boost purchases of U.S.-made automotive parts was a target that "will be watched," Ms. Hills said.

Sens. Baucus and Danforth, who last October jointly introduced a bill to extend the Super 301 provision of the 1988 trade act through 1997, both queried Ms. Hills on the administration's opposition to renewing the measure, which covered 1989 and 1990 only. The Super 301 provision required the executive branch to identify priority countries for market-access talks and authorized the White House to retaliate if negotiations with targeted countries did not result in agreements to eliminate the cited trade barriers. USTR Hills, saying that she was "not enthusiastic about that trade tool," reiterated executive branch arguments that the deadlines imposed by the Super 301 provision complicate negotiations.

Sen. Donald Riegle (D, Mich.) questioned Ms. Hills on another legislative proposal intended to reduce the U.S. trade shortfall with Japan. The Trade Enhancement Act of 1992, introduced January 22 by Sen. Riegle and House Majority Leader Richard Gephardt (D, Mo.) in their respective chambers, would require Japan to reduce the 1991 bilateral trade deficit by 20 percent a year for the

next five years. Failure to meet this target would trigger restrictions on the sale of domestically made and imported Japanese vehicles in this country (see *JEI Report* No. 2B, January 17, 1992). USTR Hills said she could not endorse the strategy outlined in the Trade Enhancement Act and argued that it is more important not to constrain trade but to open markets.

Michael Farren, the Department of Commerce's under secretary for international trade, also emphasized that President Bush's Asia trip was intended to demonstrate the importance of trade; on this basis it was "quite successful," he said. Mr. Farren, who negotiated a number of the market access measures announced by Tokyo, outlined several of the trip's objectives and achievements, particularly in the automotive sector. Sen. Bentsen questioned Mr. Farren's assertion that U.S. automotive executives were pleased with the trip's achievements in the automotive area and expressed disappointment that the administration did not come home with enforceable agreements.

Both Sens. Bentsen and Riegle voiced concern that Japanese automotive manufacturers' plans to increase purchases of U.S. parts would benefit Japanese suppliers operating in this country over "traditional" U.S. producers. Mr. Farren noted that it is important for Americans "to recognize a job as a job." He added that a study planned by Washington and Tokyo to examine the sourcing patterns of American and Japanese vehicle manufacturers would provide the information needed to assess the local content issue.

The Finance Committee heard differing conclusions about the trip's achievements from two industry representatives. Robert Galvin, chairman of Motorola, Inc., told the panel that the president's trip was a "strong step forward" that could energize American industry. However, Owen Bieber, president of the United Auto Workers union, characterized the joint economic agenda penned by Japan and the United States during the president's visit as "simply a statement of intentions and hopes, not firm commitments." Mr. Bieber said the UAW does not expect the "action plan" to help narrow either the overall U.S.-Japan trade imbalance or this country's automotive trade shortfall with Japan.

Several committee members stressed the urgency of successfully concluding the Uruguay Round of multilateral trade negotiations. Legislators from both parties emphasized the need for long-term plans for making the United States more competitive. A number also pointed to the importance of spurring the interest and the cooperation of American businesses in boosting their competitiveness. As the second session of the 102nd Congress gets underway lawmakers will be looking to this country as well as to Japan for solutions to U.S. trade and competitiveness problems.

Margo Grimm

Bribery Scandal Complicates Miyazawa's Agenda

Just when the ruling Liberal Democratic Party thought it had laid to rest voters' concerns about the party's sense of morality and fitness for leadership following the Recruit Co., Ltd. influence-peddling affair, another bribery scandal has surfaced to rock the LDP. The January 13 arrest of Fumio Abe, a former cabinet official and high-ranking member of Prime Minister Kiichi Miyazawa's faction, on suspicion of taking bribes from Kyowa Corp., a now bankrupt steel frame manufacturer, has placed Mr. Miyazawa under intense political scrutiny and revived questions about the corruption-prone nature of Japanese politics. Some analysts believe that the prime minister, who was forced to step down as finance minister in late 1988 because of his former secretary's dealings with Recruit, may have to resign once more to accept responsibility for a colleague's conduct — even if he can prove unequivocally that he had no knowledge of, or influence on, Mr. Abe's actions.

In the near term the furor over the Abe bribery scandal appears likely to complicate Diet action on the FY 1992 budget proposal before the April 1 start of the fiscal year. The opposition parties have indicated that they intend to take up as much time as is needed during the 150-day

Table 3: **Japanese Mergers by Industry, FY 1986-FY 1990**

(number of cases)

Industry	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
Agriculture	9	2	7	11	7
Mining	3	6	3	5	2
Construction	60	61	64	85	122
Manufacturing	243	268	291	309	380
Food Products	24	22	32	26	41
Textiles	15	23	26	24	41
Wood Products	7	14	8	9	16
Paper and Pulp	8	5	9	11	11
Printing and Publishing	10	14	23	22	26
Chemicals and Petroleum	34	36	31	50	40
Rubber	3	3	4	6	1
Nonmetallic Mineral Products	18	15	14	15	28
Steel	10	7	7	8	10
Nonferrous Metals	5	6	4	4	6
Fabricated Metal Products	26	22	15	24	32
Machinery	74	86	99	92	95
Other	9	15	19	18	33
Retail and Distribution	398	409	460	453	551
Real Estate	120	140	143	176	208
Transportation and Communications	50	69	70	79	69
Services	151	142	167	184	217
Finance and Insurance	34	21	19	30	34
Electricity and Gas	1	0	1	0	0
Other	78	97	111	118	161
Total	1,147	1,215	1,336	1,450	1,751

Source: Fair Trade Commission, *Kosei Torihiki Iinkai Nenji Hokoku (Anti-Monopoly White Paper), 1991.*

offering to buy Kojima Securities Co., Ltd. via a stock swap. The bid by the medium-sized brokerage to expand beyond its Tokyo base by acquiring Yokohama-focused Kojima surprised industry analysts.

Faced with slumping trading volumes both on organized exchanges and on the over-the-counter market, many smaller securities firms are expected to post poor results for FY 1991, inviting merger or takeover bids. Observers predict that poor business results will force even top brokerages to restructure their subsidiary brokerages, adding more momentum to the merger wave.

Jon Choy

* * * * * *

The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.